

ORIGINAL



0000178642

1 Timothy M. Hogan (004567)  
2 ARIZONA CENTER FOR LAW  
3 IN THE PUBLIC INTEREST  
4 514 W. Roosevelt Street  
5 Phoenix, Arizona 85003  
6 (602) 258-8850  
7 [thogan@aclpi.org](mailto:thogan@aclpi.org)  
8 *Attorneys for Southwest Energy*  
9 *Efficiency Project*

RECEIVED  
AZ CORP COMMISSION  
DOCKET CONTROL

2017 APR -3 P 3:39

Arizona Corporation Commission

DOCKETED

APR 3 2017

DOCKETED BY

GB

BEFORE THE ARIZONA CORPORATION COMMISSION

8  
9 TOM FORESE, Chairman  
10 BOB BURNS  
11 DOUG LITTLE  
12 ANDY TOBIN  
13 BOYD W. DUNN

14 IN THE MATTER OF THE APPLICATION OF  
15 ARIZONA PUBLIC SERVICE COMPANY FOR  
16 A HEARING TO DETERMINE THE FAIR  
17 VALUE OF THE UTILITY PROPERTY OF THE  
18 COMPANY FOR RATEMAKING PURPOSES,  
19 TO FIX A JUST AND REASONABLE RATE OF  
20 RETURN THEREON, TO APPROVE RATE  
21 SCHEDULES DESIGNED TO DEVELOP SUCH  
22 RETURN.

Docket No. E-01345A-16-0036

23 IN THE MATTER OF FUEL AND  
24 PURCHASED POWER PROCUREMENT  
25 AUDITS FOR ARIZONA PUBLIC SERVICE  
COMPANY.


Docket No. E-01345A-16-0123

NOTICE OF FILING TESTIMONY  
OF JEFF SCHLEGEL ON BEHALF  
OF SOUTHWEST ENERGY  
EFFICIENCY PROJECT  
REGARDING PROPOSED  
SETTLEMENT AGREEMENT

1 Southwest Energy Efficiency Project through its undersigned counsel, hereby provides  
2 notice that it has this day filed the attached testimony of Jeff Schlegel regarding proposed  
3 settlement agreement.

4 DATED this 3<sup>rd</sup> day of April, 2017.

5 ARIZONA CENTER FOR LAW IN  
6 THE PUBLIC INTEREST

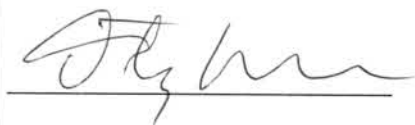
7 By   
8 Timothy M. Hogan  
9 514 W. Roosevelt Street  
10 Phoenix, Arizona 85003  
11 *Attorneys for Southwest Energy Efficiency*  
12 *Project*

11 ORIGINAL and 13 COPIES of  
12 the foregoing filed this 3<sup>rd</sup> day  
13 of April, 2017, with:

14 Docketing Supervisor  
15 Docket Control  
16 Arizona Corporation Commission  
17 1200 W. Washington  
18 Phoenix, AZ 85007

17 COPIES of the foregoing  
18 electronically mailed this  
19 3<sup>rd</sup> day of April, 2017, to:

20 All Parties of Record

21   
22  
23  
24  
25

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

TOM FORESE, CHAIRMAN  
BOB BURNS  
DOUG LITTLE  
ANDY TOBIN  
BOYD DUNN

IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY FOR  
A HEARING TO DETERMINE THE FAIR  
VALUE OF THE UTILITY PROPERTY OF THE  
COMPANY FOR RATEMAKING PURPOSES,  
TO FIX A JUST AND REASONABLE RATE OF  
RETURN THEREON, TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP SUCH  
RETURN.

Docket No. E-01345A-16-0036

---

IN THE MATTER OF FUEL AND PURCHASED  
POWER PROCUREMENT AUDITS FOR  
ARIZONA PUBLIC SERVICE COMPANY.

E-01345A-16-0123

**SWEEP DIRECT TESTIMONY  
ON THE PROPOSED  
SETTLEMENT AGREEMENT**

Direct Testimony of

**Jeff Schlegel**

**Southwest Energy Efficiency Project (SWEEP)**

on the Proposed Settlement Agreement

April 3, 2017

**Settlement Direct Testimony of Jeff Schlegel, SWEEP**  
**Docket No. E-01345A-16-0036**

**Table of Contents**

I.	Introduction .....	2
II.	The Large Increases in the Basic Service Charges for Residential and Small General Service Customers Are Not Just and Reasonable and Should Not Be Approved. The Proposed Changes are Not Cost Based or in the Public Interest.....	3
III.	Recommended Rate Design: Properly Designed TOU With Lower BSCs.....	8
IV.	Restrictions on Customer Choice and Customer Rate Options Should Be Eliminated.....	10
V.	The DSM Funding Over-Collections Should Be Addressed in the DSM Implementation Plan Proceeding, Consistent With Prior Commission Direction.....	10
VI.	Conclusion.....	11
	SWEEP Exhibit 1 – Calculation of Basic Service Charge for Residential Customer Class .....	12

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson, Arizona 85704-3224.

**Q. For whom are you testifying?**

A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP).

**Q. Please describe the Southwest Energy Efficiency Project (SWEEP).**

A. SWEEP is a public interest organization dedicated to advancing energy efficiency to promote customer benefits, energy system reliability, economic prosperity, and protection of natural resources in the six states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming. I am the Arizona Representative for SWEEP.

**Q. Did you previously file testimony in this proceeding?**

A. Yes, I filed revenue requirement and rate design testimony in this proceeding previously.

**Q. Did you participate in the settlement discussions?**

A. Yes. As a party, SWEEP was provided with an opportunity to participate in the settlement discussions and I participated in the discussions throughout. I found the settlement discussions to be open, transparent, and inclusive of all parties who desired to participate.

**Q. Please provide a summary of your testimony on the proposed Settlement Agreement.**

A. SWEEP does not support the proposed Settlement Agreement and is not a Signing Party. While much of the proposed Settlement Agreement may be in the public interest, the following provisions are not in the public interest and do not result in just, fair, and reasonable rates:

- Large increases in mandatory fees in the form of high Basic Service Charges for residential and small general service customers, including 73% and 131% increases under the R-Basic and R-Large rates. (Sections 17.1 – 17.4.)
- Poorly designed residential time-of-use (TOU) rates that have a long, five-hour on-peak period (3:00 pm to 8:00 pm), which is a major burden for many customers, including families and customers who must remain at home. (Section 17.8.)

- Restrictions on customer choice and customer rate options, specifically the 90-day waiting period before qualified new residential customers would be allowed to select the R-Basic two-part rate. (Section 19.1.)
- The DSM funding over-collection issue proposed to be addressed in the Settlement Agreement, which is counter to prior Commission procedural direction, and the proposed refund of DSM over-collected funds being used to mask the impact of the rate increase on customers. (Section 4.2.)

The above provisions of the Settlement Agreement should be modified in the manner I describe in my testimony prior to Commission approval of the Agreement. Only then would the Settlement Agreement be in the public interest.

**II. THE LARGE INCREASES IN THE BASIC SERVICE CHARGES FOR RESIDENTIAL AND SMALL GENERAL SERVICE CUSTOMERS ARE NOT JUST AND REASONABLE AND SHOULD NOT BE APPROVED. THE PROPOSED CHANGES ARE NOT COST BASED OR IN THE PUBLIC INTEREST.**

**Q. Describe the Settlement Agreement proposal to increase the Basic Service Charges for residential customers.**

- A. Table 1 shows the proposed rate options, and the associated changes in the BSCs that the residential customers would experience under the Settlement Agreement.

**Table 1. APS Current and Proposed Residential Rates and BSCs**

Proposed Rate	Current Rate	Current BSC <sup>1</sup>	Proposed BSC	Change to BSC (\$)	Change to BSC (%)
R-XS	E-12	\$8.67	\$10.00	\$1.33	15%
R-Basic	E-12	\$8.67	\$15.00	\$6.33	73%
R-Large	E-12	\$8.67	\$20.00	\$11.33	131%
TOU-E	ET-1 or ET-2	\$16.91	\$13.00	-\$3.91	-23%

<sup>1</sup> The basic service charge for E-12 standard is approximately \$8.67 per month (\$0.285 per day for 30.42 days).

The majority of APS residential customers would see significant increases in their BSCs. Customers moving from the E-12 standard rate to the R-Basic rate would see a 73% increase in the BSC, from \$8.67 per month to \$15.00 per month. The E-12 customers moving to the R-Large rate would see a BSC increase of 131%.

**Q. Describe the Settlement Agreement proposal to increase the BSCs for small general service customers.**

A. The Settlement Agreement also proposes significant increases in the BSCs for extra-small and small general service customer classes. These changes are outlined in Table 2. The BSC increases range from 45% to 73%.

**Table 2. APS Current and Proposed Rates and BSCs for E-32 XS GS, E-32 S GS, and E-32 TOU XS and S, by Metering Type**

Metering Type	Current BSC \$/day	Proposed BSC \$/day	Current BSC \$/month	Proposed BSC \$/month	Change \$	Change %
Self-contained meters	0.672	1.160	\$20.44	\$35.28	\$14.84	73%
Instrument rated meters	1.324	2.020	\$40.27	\$61.44	\$21.17	53%
Primary voltage meters	3.415	4.947	\$103.87	\$150.47	\$46.60	45%

**Q. Does SWEEP support these proposed increases to the BSC?**

A. No. The proposed increases to the BSC are not cost justified and are not in the public interest, and therefore should be rejected or modified.

First, the increases are not cost justified. It is a mistaken belief that all so-called "fixed" costs should be assigned and recovered on an individual customer basis. In fact, only the costs directly related to serving the customer should be included as customer costs. My calculations of the direct, customer-related costs for the residential and small general service classes are much lower than the BSCs proposed in the Settlement Agreement and are below APS's existing BSC under the E-12 standard rate and the BSC for small general service customers.<sup>2</sup> At most, a Basic Service Charge calculated including *only* the basic customer costs, as appropriate, results in a residential BSC of \$8.05

<sup>2</sup> The basic service charge for E-12 standard is approximately \$8.67 per month (\$0.285 per day for 30.42 days).

1  
2 Second, the proposed increases are not in the public interest. Regardless of the method  
3 used to determine the BSC, the Commission must consider the policy implications of a  
4 high fixed component of a customer's bill and should reject any increase.

5  
6 The proposed increases in the Settlement Agreement would have many negative  
7 consequences. They would:

- 8  
9     ▪ Reduce the amount of control residential and small general service customers have  
10       over their bills.  
11  
12     ▪ Harm low-income customers.  
13  
14     ▪ Be punitive to apartment dwellers who have much lower than average costs.  
15  
16     ▪ Mute the price signal to customers to conserve energy, become more energy efficient,  
17       and reduce their utility costs.  
18

19 **Q. Which costs should be recovered in a BSC?**

- 20  
21 A. The BSC should only include the costs associated with meters, billing, meter reading, and  
22 customer service. This approach is also known as the Basic Service Method and properly  
23 aligns cost recovery with cost causation. According to a study commissioned by the  
24 National Association of Regulatory Utility Commissioners, the Basic Service Method  
25 (also known as the Basic Customer Method) is a common method used in over 30 states.<sup>3</sup>  
26 This method aligns with the original recommendations of Professor Bonbright on which  
27 costs should be classified as customer related.<sup>4</sup> These costs generally include those  
28 associated with meters, billing, meter reading, and customer service. This is a long-  
29 standing definition and the appropriate method for determining the BSC.  
30

31 **Q. Are you proposing a specific BSC for residential customers?**

- 32  
33 A. Yes. I propose the Commission approve a BSC of \$8.05 for all residential rates. This  
34 BSC recommendation is cost-based, consistent with the Basic Service Method, provides  
35 residential customers more control over a larger portion of their energy bills, and presents  
36 customers with the proper price signals regarding conservation and energy efficiency.  
37  
38

---

<sup>3</sup> Weston, Fredrick. 2000. "Charging for Distribution Utility Services: Issues in Rate Design." Regulatory Assistance Project. <http://pubs.naruc.org/pub/536F0210-2354-D714-51CF-037E9E00A724>.

<sup>4</sup> Bonbright, James C. 1961. *Principles of Public Utility Rates*. Columbia University Press. p. 347-349.

1 **Q. Can you describe your approach to calculating the BSC?**

2  
3 A. Exhibit SWEEP-1 shows my calculation of the BSC for the residential class. My BSC  
4 calculation includes only the direct costs, which vary with the number of customers on  
5 the system. These costs include: meters, billing, the service drop, and customer  
6 installation expense. The calculation is based on the Company's proposed return on  
7 equity (ROE). If the proposed ROE is changed/reduced or the capital structure is  
8 adjusted, the BSC recommendations would also need to be adjusted. This approach is  
9 consistent with the Basic Service Method of collecting only customer-related costs in a  
10 customer charge.  
11

12 **Q. How does the SWEEP BSC differ from the original APS-proposed BSC?**

13  
14 A. APS includes several additional cost categories that are not customer related. These cost  
15 categories include administrative and general costs in FERC accounts 901, 904, 905, 907-  
16 913, and 916. These are costs which do not vary based on the number of customers and  
17 should be rejected as customer related. Some of these costs include:  
18

- 19 • Advertising expenses (913)
  - 20 • Demonstrating and selling expenses (912)
  - 21 • Uncollectible account expense (904)
  - 22 • Supervision costs (those not related to accounts 902 and 903)
  - 23 • Customer assistance expense (908)
- 24

25 **Q. Are there other large differences between the SWEEP and the original APS**  
26 **proposals?**

27  
28 A. Yes. The most significant difference is that APS is proposing to include several  
29 categories of distribution plant in FERC accounts 364 (poles, towers, and fixtures), 365  
30 (overhead conductors and devices), 366 (underground conductors and devices), and 368  
31 (line transformers). These accounts are distribution plant related and should be rejected as  
32 customer related costs. The associated operation and maintenance (O&M) costs for these  
33 accounts should also be rejected as customer related.  
34

35 **Q. Do the proposed changes in the BSCs in the Settlement Agreement better align rate**  
36 **design with cost causation?**

37  
38 A. No, they do not. The proposed changes to the BSC will over-collect costs from some  
39 customers and under-collect them from others. Any distribution plant costs (to arrive at  
40 BSCs higher than I calculated consistent with customer costs) are caused by numerous  
41 customers with diverse characteristics. To recover these costs evenly among all  
42 residential customers is not cost based and should be rejected.  
43

1 Every customer in the utility system imposes different costs to the system. For example,  
2 apartment dwellers cost less to serve than single family homes. Customers with overhead  
3 lines are cheaper to serve than those with underground lines. Customers in rural areas  
4 cost more to serve than urban customers. Customers in APS's service territory are no  
5 exception to these realities and none of these points are addressed in the Settlement  
6 Agreement proposal.

7  
8 **Q. How would the Settlement Agreement proposal reduce the amount of control**  
9 **residential customers have over their bills?**

10  
11 A. A BSC is a mandatory fixed fee that customers cannot avoid or control. When a higher  
12 BSC is implemented as part of an overall rate increase, customers are hit with a "double  
13 whammy." First, their rates are increased significantly. Second, their ability to respond  
14 and mitigate the impact of the rate increase is diminished significantly due to a higher  
15 BSC. For example, the proposed 73% increase in the BSC for R-Basic customers would  
16 have a very significant impact on the portion of the bill that those residential customers  
17 can control.

18  
19 **Q. How does a higher BSC mute the price signal to customers to conserve energy and**  
20 **become more energy efficient?**

21 A. Increasing the BSC mutes the price signal to customers by reducing the amount of utility  
22 bill cost savings that customers experience when they conserve energy or become more  
23 energy efficient. As such, a higher BSC reduces the customer incentive to engage in  
24 energy efficiency opportunities because customers can affect only a smaller portion of  
25 their total utility bills. As a result, increasing the fixed charge portion of the customer's  
26 bill limits options for investment in energy efficiency for a customer.

27  
28 Commission policy should encourage and incent (through price signals and other means)  
29 customers to control their utility bills, and should provide opportunities and  
30 encouragement to reduce customer utility bills when lower cost options are available.

31  
32 **Q. Why is it important to send a price signal to customers to promote conservation and**  
33 **energy efficiency?**

34  
35 A. There are several reasons why this price signal is important to maintain. First, the  
36 Commission has clearly articulated a strong public policy goal of increasing energy  
37 efficiency. APS has offered successful energy efficiency programs that benefit customers  
38 for years. Significantly altering the price signal for customers to conserve and engage in  
39 energy efficiency is antithetical to the state policy goals related to energy efficiency.  
40 Second, discouraging wasteful use of electricity is a primary principle of rate design.  
41 When outlining his eight criteria for a sound rate structure, Professor Bonbright included  
42 "optimum-use or consumer-rationing objective, under which the rates are designed to

discourage the wasteful use of public utility services” as a primary function of utility rates.<sup>5</sup>

**Q. Given these objections, what does SWEEP recommend?**

A. SWEEP recommends that the proposed increases to the BSCs set forth in the Settlement Agreement be modified. Specifically, SWEEP recommends that the residential BSCs be calculated and set using the Basic Service Method, which results in a residential customer charge of \$8.05, as calculated by SWEEP (SWEEP Exhibit 1) for R-XS, R-Basic, R-Large, and TOU-E rates.

If the Commission wanted to offer a financial incentive to encourage uptake of the TOU-E rate through the level of the Basic Service Charge, it could set the R-XS and TOU-E BSCs at \$8.05, consistent with the Basic Service Method, and set the R-Basic and R-Large BSCs higher at \$10 per month.

Or, alternatively, the Commission could set the R-Basic BSC at \$13 and the TOU-E BSC at \$10, to retain a \$3 differential between TOU-E and R-Basic, as a financial incentive for TOU-E. These BSCs would not be cost-based nor would they be consistent with the Basic Service Method, but they would be closer to cost-based than the BSCs in the Settlement Agreement. Note that these are the same BSCs ordered by the Commission in the TEP rate case on February 8, 2017, less than a couple of months ago.

For the extra small and small general service customers, SWEEP recommends the Basic Service Charge be retained at current levels (no increase), or alternatively, the BSCs could be calculated using the Basic Service Method, which would result in a decrease in the BSCs.<sup>6</sup>

**III. RECOMMENDED RATE DESIGN: PROPERLY DESIGNED TOU WITH LOWER BSCS.**

**Q. What do you recommend as the appropriate and effective rate design for residential customers?**

A. Properly designed, customer-friendly time-of-use rates are the most appropriate and effective rate design for APS residential customers. Time-of-use (TOU) rates are a superior rate design for reducing peak demands and are well known and understood by

<sup>5</sup> See Bonbright, James C. 1961. *Principles of Public Utility Rates*. Columbia University Press. p. 292.

<sup>6</sup> SWEEP did not calculate a BSC for all extra small and small general service customers for this testimony. However, relying on APS response to Staff 5.23, we can determine the customer charge would likely be approximately \$12.33 – which is lower than the current BSCs. This is based on using revenue cycle costs for metering, billing, and meter reading.

1 customers. A recent report by the Rocky Mountain Institute noted that well-designed  
2 time-based rates “are effective at achieving their objective of providing a price signal to  
3 customers about when to use energy.”<sup>7</sup>  
4

5 TOU rates give customers more control over their energy bills, have less harmful impacts  
6 on lower usage customers, help reduce wasteful energy use and peak demand by sending  
7 effective price signals, and give APS a reasonable opportunity to recover its authorized  
8 costs. They also better align the interests of the Company with the interests of its  
9 customers.  
10

11 Properly designed TOU rates should have lower BSCs and shorter on-peak windows that  
12 customers can actually work with as a better alternative than higher fixed charges for  
13 customers and higher BSCs in particular.  
14

15 **Q. What recommendations does SWEEP have for properly designed TOU rates?**  
16

17 A. SWEEP recommends the following for the proper design of TOU rates, to ensure their  
18 effectiveness at sending the correct price signals, and to work reasonably well for  
19 customers:  
20

- 21 ▪ Lower BSC – give customers control over more of their energy bill: \$8.05 or lower  
22 for residential;  
23
- 24 ▪ Shorter on-peak windows (three hours) that are customer-friendly, meaning that more  
25 customers will be able to work with the on-peak period;  
26
- 27 ▪ Large enough spread or differential (3-4 times) between on-peak and off-peak prices,  
28 to send a meaningful price signal.  
29

30 **Q. Why is a long on-peak period difficult for many customers?**  
31

32 A. Consider a young working family as one example. After the children come home from  
33 school, the family needs to deal with homework, family dinner, cleaning up after dinner,  
34 baths, and getting children off to bed. A 3:00 pm to 8:00 pm on-peak window virtually  
35 mandates that the family will face high on-peak charges without any real flexibility to  
36 move some activities and energy use to off-peak periods. Five hours is simply too long.  
37

38 **Q. What does SWEEP recommend?**  
39

---

<sup>7</sup> See Rocky Mountain Institute “A Review of Alternative Rate Designs: Industry Experience with Time-Based and Demand Charge Rates for Mass-Market Customers.” May 2016.

- 1 A. The Commission should modify the Settlement Agreement by setting the on-peak period  
2 to three hours, from 4:00 pm to 7:00 pm. This time period would be more attractive to  
3 customers and more customers would be able to work with and manage their energy  
4 usage during the peak periods – thereby resulting in less peak demand, a more effective  
5 rate design overall, and more customers who are willing to work with APS to manage  
6 their demand and energy use.  
7  
8

9 **IV. RESTRICTIONS ON CUSTOMER CHOICE AND CUSTOMER RATE**  
10 **OPTIONS SHOULD BE ELIMINATED.**

11 **Q. Please summarize the restriction on customer choice and customer rate options in**  
12 **the Settlement Agreement.**  
13

- 14 A. In Section 19.1, the Settlement Agreement proposes a 90-day waiting period before  
15 qualified new residential customers would be allowed to select the R-Basic two-part rate.  
16

17 **Q. What does SWEEP recommend?**  
18

- 19 A. The Commission should modify the Settlement Agreement to eliminate all restrictions on  
20 customer choice and customer options, including the 90-day waiting period. All  
21 customers should be able to choose their rate from among the options they are eligible  
22 for, and they should be able to do so on day one as an APS customer.  
23

24 To make progress on rate modernization, peak demand objectives, and controlling costs,  
25 Arizona should be doing all of this from the perspective of the customer. We should  
26 have more customer-friendly TOU rates, combined with clear and effective information,  
27 and effective rate options to *encourage* customers to move to TOU – and not mandate the  
28 rates upon customers.  
29  
30

31 **V. THE DSM FUNDING OVER-COLLECTIONS SHOULD BE ADDRESSED IN**  
32 **THE DSM IMPLEMENTATION PLAN PROCEEDING, CONSISTENT WITH**  
33 **PRIOR COMMISSION DIRECTION.**

34 **Q. What does the Settlement Agreement propose to do with DSM funding over-**  
35 **collections?**  
36

- 37 A. The Settlement Agreement proposes to refund \$15 million in DSM funding over-  
38 collections to mitigate the first-year bill impacts of the APS rate increase.  
39

40 **Q. How have these DSM over-collected funds been used?**  
41

1 A. In the recent past, the DSM funding over-collections have been used to fund special DSM  
2 initiatives, including the \$2 million schools pilot program (Decision No. 75323), and the  
3 \$4 million energy storage requirement and the increased demand reductions goals set for  
4 APS (Decision No. 75679).

5  
6 APS also proposed, and the Commission approved, a flat savings goal and the use of the  
7 DSM funding over-collections "to smooth out the path to compliance... (and) allow APS  
8 to avoid large year-to-year budget variations in attaining the overall savings goal, which  
9 benefits all customers..." (APS 2016 Amended DSM Plan, pages 2-3, and Decision No.  
10 75679.)  
11

12 **Q. Which procedural forum did the Commission order previously to address the DSM**  
13 **funding over-collections?**  
14

15 A. In Decision No. 75323 (page 17), the Commission ordered:

16  
17 "IT IS FURTHER ORDERED that the issue of the unallocated DSM funding that has  
18 been collected but unspent shall be considered during the Commission's review of the  
19 Arizona Public Service Company 2016 DSM Implementation Plan in 2016, and that the  
20 DSM funding allocation approach Arizona Public Service Company proposed in the 2016  
21 Implementation Plan shall be considered as one option."  
22

23 **Q. What is SWEEP's recommendation?**  
24

25 A. The DSM funding over-collections should be addressed in the DSM Implementation Plan  
26 proceeding, as directed by the Commission, and should not be used to mask the impact of  
27 the rate increase on customers. The Commission should review the issue in the 2017  
28 DSM Implementation Plan proceeding, which is expected to be completed during 2017.  
29 And if the Commission so decides, the refund of the DSM over-collections could be  
30 provided to customers as a result of that proceeding, in a timely manner.  
31  
32

33 **VI. CONCLUSION**

34 **Q. Does this conclude your testimony on the proposed Settlement Agreement?**

35 A. Yes. Thank you for the opportunity to offer my direct testimony.  
36

1 **SWEEP EXHIBIT 1 – CALCULATION OF BASIC SERVICE CHARGE FOR**  
2 **RESIDENTIAL CUSTOMER CLASS**

<b>Expenses</b>	<b>Account</b>	<b>Residential</b>
Meters	597	\$0
	586	\$4,535,843
	Depreciation	\$13,635,614
Services	587	\$451,498
	Depreciation	\$7,059,546
Meter Reading	902	\$1,918,588
Billing	903	\$38,852,643
Subtotal Expenses		\$66,453,731
Net to Gross on Expenses		89%
Total Expenses		\$74,650,338
<b>Rate Base</b>		
Meters		
Plant In Service	370	\$235,298,386
Less Accumulated Depreciation		\$(174,585,527)
Net Plant		\$60,712,859
Depreciation Expense		\$13,635,614
Services		
Plant In Service	369	\$283,241,237
Less Accumulated Depreciation		\$(111,540,648)
Net Plant		\$171,700,589
Depreciation Expense		\$7,059,546
Meters		\$60,712,859
Services		\$171,700,589
Total Rate Base		\$232,413,448
Grossed Up Return (10.5 ROE)	11.91%	\$27,687,868
<b>Total Customer-Related Revenue Requirement</b>		<b>\$102,338,206</b>
<b>Annual Bills</b>		<b>12,711,504</b>
<b>\$/Month</b>		<b>\$8.05</b>

3